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Letter dated 2 July 2004 from the Permanent Representative of South Africa to the United Nations addressed to the President of the Economic and Social Council

I am pleased to transmit to you herewith a supplementary report by the Economic and Social Council Ad Hoc Advisory Group on Guinea-Bissau on the work it has carried out since its last report (E/2004/10), submitted to the Council on 6 February 2004.

Important developments have taken place in the activities of the Group, including a joint mission to Guinea-Bissau with the Security Council from 25 to 28 June 2004. It is my view that the Council should be informed of these developments and I would be grateful if the attached report could be distributed as an official document of the Council, under agenda item 7 (f) "Ad hoc advisory groups on African countries emerging from conflict".

(*Signed*) Dumisani S. **Kumalo**
Ambassador and Permanent Representative
of the Republic of South Africa

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Annex

Supplementary report of the Ad Hoc Advisory Group on Guinea-Bissau

Summary

The present report focuses on developments since the last report (E/2004/10), submitted to the Council on 6 February 2004. It is based mainly on a joint mission of the Economic and Social Council Ad Hoc Advisory Group and the Security Council from 25 to 28 June 2004 and highlights the promising developments in the economic, social and political situation of the country following legislative elections in March 2004. Among other encouraging signs are major improvements in the management of public finances and a strong commitment to the partnership approach endorsed by the Economic and Social Council in 2003.

The report also addresses the future challenges and constraints that could have ramifications on the country's transition from crisis to sustainable development. The main challenges are the lack of capacity of the Government to implement policies effectively, as well as the weak engagement of the international community in supporting the development of the country. The Group is of the view that there should be no further delay in re-engaging with Guinea-Bissau to assist the country in meeting its short-, medium- and long-term needs.

I. Introduction

1. The present report, which was requested by the Economic and Social Council in resolution 2004/1, focuses on developments since the last report (E/2004/10), submitted to the Council on 6 February 2004. It is based mainly on a joint mission of the Economic and Social Council Ad Hoc Advisory Group and the Security Council and highlights, in particular, the promising developments in the economic, social and political situation of the country following legislative elections in March 2004. The report also addresses some of the challenges and constraints that may impact on the country's transition from crisis to sustainable development.

2. The joint mission took place at a time of positive and far-reaching changes in Guinea-Bissau. It may be recalled that the Group had informed the Council of the political crisis in the country that led to the resignation of former President Kumba Yala on 17 September 2003 and that it had also highlighted some of the arrangements put in place for the return to democratic rule, in accordance with the Transitional Charter agreed to by all the key stakeholders in the country, including civil society, political parties and the military.

3. It is with great satisfaction that the Group reports that Guinea-Bissau has made a major step forward with the successful holding of legislative elections on 28 March 2004, one of the key benchmarks of the Charter. These elections were deemed "free, fair and transparent" by a team of international observers and the results were accepted by all political parties. On 7 May 2004, the power of the National Transition Council was transferred to the newly elected National Popular Assembly. It is noteworthy that, for the first time in its history, the National Popular Assembly included two female members in its five-member Parliamentary Bureau. Five of the 24-member Government are women.

4. The Ad Hoc Advisory Group is greatly encouraged by the focus and energy with which the new Government is pursuing the implementation of its priorities, which are the payment of salary arrears and the restoration of public services, especially basic social services, which have been paralysed in recent years. However, the successful implementation of these priorities is constrained by a number of key challenges that confront the new Government, the main ones being the continued weakness of the economy[1] and the lack of engagement of the donor community.

II. Highlights of the work of the Ad Hoc Advisory Group since its report to the Council at the organizational session in February 2004

5. The Ad Hoc Advisory Group on Guinea-Bissau visited Guinea-Bissau from 25 to 28 June 2004. The Group was led by its Chair, Ambassador Dumisani Kumalo, Permanent Representative of South Africa, and included Ambassador Alfredo Cabral, Permanent Representative of Guinea-Bissau, Ambassador Jorge Carvalho, Ambassador of Portugal to Guinea-Bissau, representing Ambassador Gonçalo Aires de Santa Clara Gomes, and Mr. Benedicto Fonseca Filho, First Secretary of the Permanent Mission of Brazil, representing Ambassador Ronaldo Mota Sardenberg. The Group was also joined by Ambassador Crispin Grey-Johnson, Permanent Representative of the Gambia and Chair of the Group of Friends of Guinea-Bissau.

Ambassador Ismael Gaspar Martins, Permanent Representative of Angola and Chair of the Ad Hoc Working Group of the Security Council on Conflict Prevention and Resolution in Africa, who is also a member of the Economic and Social Council Ad Hoc Advisory Group on Guinea-Bissau, participated in the Security Council part of the joint mission. The Netherlands were not able to join the mission as it took place on the eve of the Netherlands assuming the Presidency of the European Union.

6. The Advisory Group held extensive discussions on 25 and 26 June 2004 with officials of the Government of Guinea-Bissau, including the Transitional President, Mr. Henrique Rosa Pereira; the Prime Minister, Mr. Carlos Gomes Jr.; the President of the National Assembly, Mr. Francisco Benante; the Minister for Foreign Affairs, Mr. Soares Sambu; and the Minister of Economy and Finance, Mr. Joao Aladje Fadia. Ambassador Dumisani Kumalo also held informal discussions with a representative of the International Monetary Fund with responsibility for Guinea-Bissau and the representative of the European Commission resident in the country. The Group also met with the United Nations country team, composed of the United Nations Resident Coordinator, the Officer-in-Charge of the United Nations Peace-building Office in Guinea-Bissau and representatives of the United Nations Children's Fund, the United Nations Population Fund, the World Food Programme, the World Health Organization and the Food and Agriculture Organization of the United Nations.

7. On 27 and 28 June 2004, the Security Council mission to West Africa joined the Ad Hoc Advisory Group in Guinea-Bissau. The objective of the joint mission was to assess the priority needs of the Government and identify what further steps could be taken to strengthen the partnership between the Government and the international community and to encourage increased donor support. Discussions were held with the high-level government officials referred to in paragraph 6 above, as well as with the Minister of Defence, Mr. Daniel Gomes; the Minister of Justice, Mr. Raimundo Pereira; the Minister of Social Solidarity, Ms. Eugenia Saldanha and the Secretary of State for Former Combatants, Ms. Isabel Burcardine; the Chief of the Armed Forces, General Verissimo Seabra; and representatives of political parties and civil society organizations.

8. The joint mission welcomed the Government's decision to strengthen the partnership and dialogue with both private and institutional international organizations, in the spirit of the partnership approach endorsed by the Council in 2003, with a view to increasing revenues and recovering international economic and financial confidence. The mission also urged the Government to persevere in its determination to consolidate the democratic process, promoting good governance, the inclusion and participation of all strata of society and respect for human rights and the rule of law. The mission also called on the new Government to create, with the assistance of the international community, the necessary conditions for the organization of free, fair and transparent presidential elections in March 2005. The mission assured the Government that the international community would continue to support the efforts of Guinea-Bissau by recommending that international partners, the Bretton Woods institutions and donors in general provide the urgently needed resources to address the social and economic priorities of the country.

9. Overall, the Group is impressed by the changes in Guinea-Bissau since its last visit. There is a sense of hope and optimism that the country is now moving in the right direction. President Rosa Pereira has continued the rehabilitation of the

country's international image and reputation, as well as strengthening the partnership with the international community.[2] The Ad Hoc Advisory Group is of the view that President Rosa Pereira and the new Government of Guinea-Bissau are fully committed to the holding of free and fair presidential elections in 2005 and urges the Council to call upon donors to support the country in the holding of these elections, in order to complete the second phase of the Transition Charter.

10. Prime Minister Carlos Gomes Jr. has reaffirmed the continued commitment of Guinea-Bissau to partnership with the international community and the clear commitment of the country to transparent, accountable governance and participation. Civil society organizations and the military have also expressed their commitment to dialogue and change and the President of the National Popular Assembly has assured the Group that the main priority for the new session, which begins on 29 June 2004 is to complete the revision of the Constitution which had been held in abeyance by the former President. The Group is convinced that the Government has met the key conditions of the partnership and is of the view that the substantial improvements made in economic management, particularly in ensuring transparency and rigour in expenditures, should be rewarded with additional resources.

International donor support to Guinea-Bissau

11. International donor support continues to remain critical in helping the Government of Guinea-Bissau to meet its priorities, that is, the payment of salaries, including arrears, as well as to meet the requirements for the basic functioning of government. In the long-term, resources are required for investment in economic and social infrastructure, to put in place the conditions required by the country for sustainable development.

12. To date, the Emergency Economic Management Fund (EEMF) managed by the United Nations Development Programme (UNDP) has attracted contributions amounting to US$ 4.9 million from the Netherlands, Sweden, France, Italy, Portugal and Brazil, of which $2.5 million has been disbursed to pay the salaries of some 11,000 civil servants from January to April 2004. The Fund has proved to be an efficient and transparent mechanism for supporting the Government of Guinea-Bissau in covering part of the gap in its emergency budget for 2004. Guinea-Bissau also received about US$ 5.5 million from other member countries of the West African Economic and Monetary Union, and China donated US$ 1 million. The Ad Hoc Advisory Group is concerned that a substantial gap of about $14 million remains that needs to be financed during the remainder of 2004. With additional donor support, EEMF can continue to be a viable, useful and transparent mechanism for providing emergency assistance to Guinea-Bissau.

13. UNDP is also giving critical support to the completion of the poverty reduction strategy paper (PRSP), one of the key policy instruments to be submitted to partners as the basis for a donor round table dialogue that is expected to be held in November 2004. The other two key policy documents, which are currently being finalized, are the Policy Charter on Infrastructural Development and the National Good Governance Programme. UNDP is working closely with the Government in regard to the round table, which will be organized once a decision is taken by the IMF Executive Board in a meeting, tentatively scheduled for 17 September 2004, on the

resumption of a programme for Guinea-Bissau. It is hoped that the round table will bring together both old and new partners of Guinea-Bissau.

14. The Government of Guinea-Bissau has recently concluded discussions with the European Commission, its principal development partner, on article 96 of the Cotonou Agreement.[3] The way is now clear for the European Union to provide budget support and development assistance to Guinea-Bissau. The Group understands that budgetary support to the tune of euro 10.5 million from the European Commission may be resumed before the end of the year, pending the adoption and resumption of an International Monetary Fund (IMF) programme in September 2004. The Group welcomes the intention of the European Commission to provide this support and urges all donors to consider favourably doing the same. The Group also welcomes the new European Union-Guinea-Bissau agreement on fisheries, which lifted the suspension of the previous agreement. The Group urges the Council to call on the European Union to accelerate its assistance in fisheries development and coastal surveillance.

15. The Bretton Woods institutions have played a key role in supporting the Government's short-term needs, principally for restoring basic government services. It should be recalled that the Government's emergency economic management programme, as well as its emergency budget for 2004, were prepared in December 2003 with the assistance of IMF, the World Bank, the African Development Bank and UNDP. These institutions continue to support the Government in the implementation of its emergency programme and in the preparation of the budget for 2005.

16. For its part, the World Bank is formulating a medium-term strategy in the amount of $22 million for the 18-month period beginning September 2004. The strategy seeks to support the restoration of macroeconomic stability, provide support to social services, particularly health and education services, and to the reinforcement of governance and the rehabilitation of economic infrastructure, namely in water, energy, transport and telecommunications infrastructure. Technical assistance will also be provided for an evaluation of poverty in 2005, technical advice in the management of public expenditures for the period 2005-2006 and a review of development policy in 2006.[4]

17. IMF has played a critical and constructive role in supporting the Government of Guinea-Bissau, despite the suspension of the Poverty Reduction and Growth Facility in 2001 and the staff monitored programme in 2002. The Fund continues to provide technical assistance in many areas, including in revenue administration, customs, expenditure management and real and fiscal sector statistics. A recent IMF mission to Guinea-Bissau was greatly encouraged by the progress made so far in the implementation of a number of measures by the Government to increase revenue and improve expenditure control. It is expected that if progress continues in these and other areas, such as rebuilding public administration, the IMF Executive Board, which meets on 17 September 2004 on Guinea-Bissau, could consider proposing the resumption of a programme for the country that, if followed, could lead to a new Poverty Reduction Growth Facility in two years. The effectiveness of such a programme would be greatly enhanced if there is broad donor support and continued close cooperation and monitoring of developments in Guinea-Bissau.

18. The Group welcomes the flexible approach being taken by the World Bank and IMF and urges other donors to consider adopting the same approach, given the profound changes that have taken place since the last quarter of 2003.

Conclusions, preliminary assessment and recommendations

19. The joint mission concluded that the conditions laid down in the Transitional Charter have so far been complied with through the successful staging of legislative elections and the appointment of an elected National Assembly and Government. Still pending is the election for the President of the Republic scheduled for 2005.

20. One of the major challenges facing the Government of Guinea-Bissau over the past years has been poor management in its public administration. The joint mission noted that there has been clear progress on this front, including that measures prescribed in the Government's emergency economic management programme are being implemented. An important role is being played by the Treasury Committee in the scrutiny of public finances, including revenue collection and expenditures, with technical assistance from the Central Bank of West African States. This scrutiny has resulted in greater transparency and discipline in the management of public funds. As a result, there are already visible gains in revenue collection, resulting in the Government's ability to honour the wage bill for May 2004 from State resources. Although in office for only 45 days, the new Government has succeeded in paying three months of salaries, after the State had previously accumulated months of salary arrears.

21. It should be noted that the emergency budget, a key element of the emergency programme, does not include the payment of salary arrears, internal debt from previous years or capital investment. The management of expenditures is also complicated by a major salary increase given to the army by the former President. The harmonization of salary scales for all public servants and the military will result in a new, more equitable salary scale that is sustainable.

22. While the joint mission noted that there has been a major improvement in the management of public finances, it is concerned that further progress is hampered by weakness in technical capacity within the Ministry of Economy and Finance. The joint mission calls on the Bretton Woods institutions which, in consultation with UNDP, have prepared an overview of the technical assistance needs of the Ministry, to continue providing assistance, with a view to formulating a comprehensive technical assistance plan.

23. The Group was particularly impressed with the attempt of the new Government to adopt transparent and meritocratic criteria in the appointment of senior public officials. A revamping of key government posts has taken place, including the appointment of Director-Generals with a proven technical track record to the four key departments of the Ministry of Economy and Finance, namely those of the budget, the treasury, taxes and customs. This has clearly improved the quality of civil servants serving the new Government.

24. While the Group was impressed with the new rigour in public administration and finances, these improvements must be backed up by

resources. In this connection, a number of interlocutors pointed to the difficulties ahead. Although revenues from cashew nuts and the European Union's compensation for fishing rights are expected to generate sufficient resources to cover current expenditures until August 2004, considerable financial inflows will be needed for the last four months of the year and into the first half of 2005.

25. **On the political front, the Group is aware that the absence of a parliamentary majority may constitute a stumbling block for the new Executive to implement its programme. In order to tackle to country's structural problems, the Government will require parliamentary support on key issues such as the approval of its programme, the budget and other key legislation. The Group is hopeful that the alliance made between the two main parties after the elections will continue and that national interests will prevail over partisan ones.**

26. **With regard to security, an urgent and comprehensive restructuring package is required for the armed forces. This includes not only review of salaries, career structures, working conditions and infrastructure but also a reformulation of their respective roles in a fragile democratic State. The Group calls for urgent and immediate assistance for this effort as it is an extremely sensitive issue in the context of the recent history of the country. The restructuring of the security apparatus is also crucial to preventing a relapse in the areas of conflict prevention and the consolidation of peace.**

27. **One of the risks cited by the Bretton Woods institutions to the successful implementation of their programmes is the weak engagement of the international community. The Group is of the view that there should be no further delay in re-engagement with Guinea-Bissau to assist the country in meeting its short-, medium and long-term needs. An integrated and coordinated approach which would lead to a comprehensive assistance programme by the Bretton Woods institutions, the United Nations system, the traditional and non-traditional donors is a sine qua non for putting Guinea-Bissau on the path to sustainable development. The Group would also like to call the attention of the Council again to the recommendations made in its first report (E/2003/8) regarding the agriculture sector, in particular the fisheries and rice subsectors, which are ready for take-off if they benefit from modest investment.**

28. **To create the conditions for the full engagement of the donor community, the Ad Hoc Advisory Group on Guinea-Bissau urges the Council to call on the Executive Board of IMF to consider the resumption of a programme for the country. The Group also strongly recommends that the Council call on donors to participate in the round table being organized by UNDP, tentatively scheduled for November 2004.**

Notes

[1] IMF reports that real gross domestic product (GDP) is expected to remain at the same level in 2003 as in 2002, which means a further fall in per capita income. Indeed, the UNDP *Human Development Report 2004* shows Guinea-Bissau ranked 172 of 177, representing a fall in its position vis-à-vis 2003.

[2] Guinea-Bissau's military contribution to the United Nations Mission in Liberia (UNMIL) for a period of eight months has been highly appreciated.

[3] Article 96 of the Cotonou Agreement calls for consultations when a Party considers that the other Party has failed to fulfil an obligation stemming from respect for human rights, democratic principles and the rule of law.

[4] The next structural adjustment programme is expected to be launched in 2006.